

Charitable Giving

The adage that charity begins at home is never more obvious than in estate planning. I have never worked with a client yet that does not want to provide for their own family first. Once family provisions are finalized however, most are equally willing to provide to a charity, especially if it helps the family avoid paying taxes. Gifting to a charity is an effective way to manage your estate so that you can legitimately avoid income taxes during your lifetime and estate taxes at your death. It is also a rewarding way to demonstrate your family values and social responsibility to your loved ones. With both income and estate taxes on the rise, now is a great time to explore the options available to you through planned giving. Here are just some of the ways to structure a charitable plan.

Annual Charitable Tax Deduction Planning

This option is an easy yet often underutilized tax saving strategy. If you are qualified to itemize your return, you can not only provide to your charity of choice but pay less in income tax as well. Your contributions can also help you avoid capital gains tax. You deduct the full value of highly appreciated assets avoiding the payment of capital gains you would have had to pay at their sale. Although there are limitations as to how much you can deduct each year, capital gains carry-over provisions allow you to take deductions every year until exhausted.

Bequests by Trust or Will Planning

One of the most common ways to leave money to charity at your death is by bequests, either in your will or your trust. These contributions are subtracted dollar for dollar from your estate tax liability and better yet, if properly executed, can reduce the income tax that must be paid by the beneficiaries of your IRAs and/or annuities.

Charitable Trust Planning

Charitable trusts come in two basic types: Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs).

Under a Charitable Remainder Trust (CRT), property or money is donated to a charity, but the donor continues to use the property and/or receive income from it while living. At the donor death, his beneficiaries continue to receive the income for a specific period of time. At the expiration of that term, the charity receives the remaining assets. The donor avoids any capital gains tax on the donated assets, and also gets an income tax deduction for the fair market value of the assets to be donated to the charity at the end of the term. In addition, the asset is removed from the estate, reducing subsequent estate taxes. While the contribution is irrevocable, if they wish to, the donor may retain control over the way the assets are invested. They can even change the

identity of the charity as long as any named charity fits the IRS definition of a qualified charitable organization.

The Charitable Lead Trust (CLT) on the other hand, is a mirror image of a CRT. Instead of providing payments to the donor, with the remainder going to the charity, the CLT makes payments to the charity for a term of years. The remaining assets then go to whomever the donor designates, usually members of the donor's family. Like the CRT, the charitable contribution made annually result in a charitable income tax deduction. The CLT provides an estate tax deduction as well. The CLT allows the donor to benefit the charity during their lifetime or immediately following their death with a series of payments before the remaining assets pass to family members at substantially reduced gift and estate tax cost.

The Social Conscience

There are many reasons that my clients prefer to avoid taxation. Rarely are they driven solely by a desire to acquire more wealth. With our national debt mounting, many question the fiscal responsibility of government. Others feel that bureaucracy by its nature breeds inefficiency and therefore feel their money will not be used to its best advantage. Still others have a social cause they are passionate about, one they have contributed to during their lifetime and want to continue to fund after their death. Whatever your reasons, charitable giving nurtures our fundamental need to give back to our society.